

REPORT OF EXAMINATION  
OF THE  
ICW NATIONAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2020

*Insurance Commissioner*

A handwritten signature in blue ink, appearing to be 'D. DeLoach', is written over a horizontal line.

Filed on May 11, 2022

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Los Angeles, California  
March 11, 2022

Honorable Ricardo Lara  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ICW NATIONAL INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office is located at 15025 Innovation Drive, San Diego, California 92128.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2016. This examination covers the period from January 1, 2017 through December 31, 2020.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the

examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

The examination was a coordinated examination and was conducted concurrently with the examinations of other insurance entities in the holding company group, including Insurance Company of the West (California), Explorer Insurance Company (California), ICW Premier Insurance Company (Nevada), ICW Casualty Insurance Company (Nevada) and VerTerra Insurance Company (Texas). California served as the lead state.

### COMPANY HISTORY

The Company was incorporated on October 17, 1962 under the laws of the State of California, and commenced transacting property and casualty business on March 8, 1963. Effective January 1, 2017, the Company became a wholly-owned subsidiary of the Insurance Company of the West (West), with the West purchasing all outstanding shares of stocks from Explorer Holdings, Inc. Effective May 15, 2017, the California Department of Insurance approved the Company's name changed from Explorer American Insurance Company to ICW National Insurance Company.

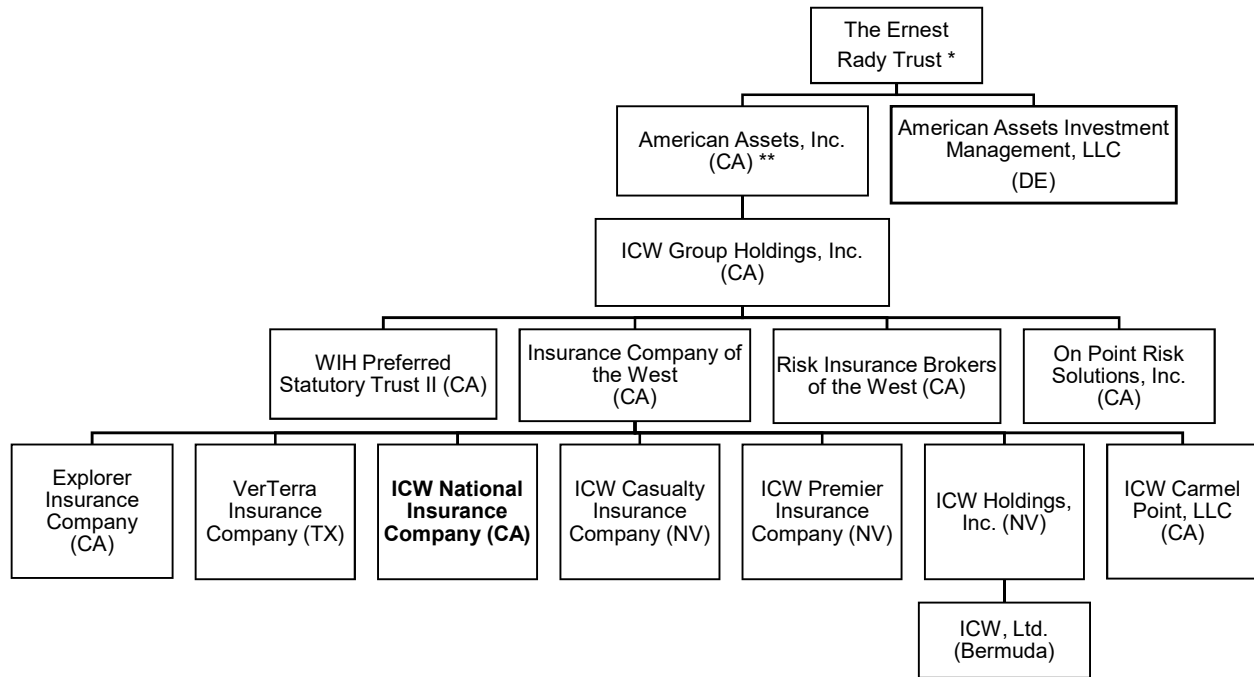
### Capitalization

The Company is authorized to issue 50,000 shares of Class A voting common stock with a par value of \$50 per share. As of December 31, 2020, there were 20,000 shares issued and outstanding.

On July 25, 2017, West made a capital cash contribution of \$13,000,000 to the Company.

## MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which ultimate control is held by The Ernest Rady Trust. The Company's ultimate parent is American Assets, Inc. (dba ICW Group Assets, Inc.). The following abridged organizational chart is limited to the entities the Company had interrelationships as of December 31, 2020 (all ownership is 100% unless otherwise indicated):



\* The Ernest Rady Trust, owns 75.9% of American Assets, Inc.; 10.6% is owned by Donald Rady Trust #2; 13.5% is owned by other individuals with less than 10% controlled by one individual.

\*\* American Assets, Inc. owns 81.9% of the ICW Group Holdings, Inc.; 14.8% is owned by Ernest Rady Trust; 3.3% is owned by other individuals with less than 10% controlled by one individual.

The four members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal offices of the Company serving at December 31, 2020:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Bernard M. Feldman Del Mar, California	Vice Chairman Insurance Company of the West
Kevin M. Prior San Diego, California	President and Chief Executive Officer Insurance Company of the West
Ernest S. Rady La Jolla, California	Chairman of the Board Insurance Company of the West
Nicole M. Rathsam San Diego, California	Senior Vice President, Treasurer, and Chief Financial Officer Insurance Company of the West

Principal Officers

<u>Name</u>	<u>Title</u>
Kevin M. Prior	President and Chief Executive Officer
Nicole M. Rathsam	Senior Vice President, Treasurer, and Chief Financial Officer
Michael P. Warnick	Vice President, Secretary, and General Counsel

## Intercompany Agreements

Second Amended and Restated Federal Tax Allocation Agreement – Effective January 1, 2018, the Company, its affiliates, and its ultimate parent, American Assets, Inc., entered into a Second Amended and Restated Federal Tax Allocation Agreement (Second Tax Allocation Agreement). Pursuant to the terms of the Second Tax Allocation Agreement, the consolidated federal tax liability is allocated among the participants in the ratio that each subsidiary's separate tax return liability bears to the total consolidated federal tax liabilities of all subsidiaries that are members of the consolidated group. The Second Tax Allocation Agreement supersedes the Amended and Restated Federal Tax Allocation Agreement that was effective January 1, 2015, and was approved by the California Department of Insurance (CDI) on April 2, 2015.

The purpose of the Second Tax Allocation Agreement is; 1) reflect an update on the name of the Company, formerly known as Explorer American Insurance Company to ICW National Insurance Company (National), 2) add ICW Casualty Insurance Company (Casualty), and ICW Premier Insurance Company (Premier); and 3) remove Pacific Encino Assets, Inc. which was dissolved on December 18, 2014. The following entities remain participants to the Second Tax Allocation Agreement; AAI Aviation, Inc., ICW Group Holdings, Inc., Insurance Company of the West (West), Explorer Insurance Company (Explorer), VerTerra Insurance Company (VerTerra), Explorer Holdings, Inc., ICW Holdings, Inc., ICW, Ltd., On Point Risk Solutions, Inc., and Risk Insurance Brokers of the West.

The CDI approved the Second Tax Allocation Agreement on December 8, 2017. Taxes paid by the Company for 2018, 2019, and 2020 were \$16,044, \$53,110 and \$1,543,322, respectively. The Company received a \$36,017 tax refund in 2017.

Amended and Restated Intercompany Affiliated Management Agreement – Effective January 1, 2018, the Company, its parent, West, and its affiliates, Explorer, VerTerra, Casualty, and Premier, collectively known as the Companies, entered into an Amended

and Restated Intercompany Affiliated Management Agreement (Agreement) with West's parent, ICW Group Holdings, Inc. (ICW Holdings). Under the terms of the Agreement, ICW Holdings will provide administrative and special services to the Companies. In addition, West will provide certain underwriting and claims services and share in the use of the day to day operations of certain property, equipment, and facilities. Each service recipient agrees to reimburse the performing entity for the actual cost of services provided. This Agreement supersedes and updates the Intercompany Affiliated Management Agreement that was effective January 1, 2015, and approved by the CDI on December 19, 2014.

The CDI approved the Amended and Restated Intercompany Affiliated Management Agreement on July 18, 2018. The amounts paid by the Company to ICW Holdings under the Agreement for the years 2017, 2018, 2019, and 2020 were \$1,851, \$57,371, \$120,509, and \$137,273, respectively. The amounts paid by the Company to West for certain underwriting and claims services under the Agreement for the years 2018, 2019, and 2020, were \$2,472, \$24,404, and \$60,648, respectively.

Amended and Restated Investment Management Agreement – Since July 1, 2012, the Company, its parent, West, and its affiliates, Explorer, VerTerra, ICW, Ltd. together with West's parent, ICW Group Holdings, Inc., collectively known as ICW Group Entities, have been parties to an Investment Management Agreement (Agreement) provided by American Assets Investment Management, LLC, (AAIM), a Delaware limited liability company, and an affiliated entity. Under the terms of the Agreement, AAIM has provided investment advisory services to the ICW Group Entities. As compensation, a management fee based on the ICW Group Entities' Portfolios is paid to AAIM. Effective March 20, 2015, the ICW Group Entities and AAIM, entered into the Amended and Restated Investment Management Agreement (Amended Agreement) to include prior amendments that were not previously approved by the CDI. The Amended Agreement was approved by the CDI on March 20, 2015.



Effective January 1, 2018, the ICW Group Entities and AAIM entered into a Second Amended and Restated Investment Management Agreement (Second Amended Agreement) to add Casualty and Premier as service recipients, to update the name change of the Company and to update the investment guidelines. The current management fees for the Second Amended Agreement, which is based on the ICW Group Entities' Portfolios are: a) fixed income is 13.5 basis points per year; b) active equities is 38.5 basis points per year; and c) private equity is 1.5 basis points per year. The CDI approved the Second Amended Agreement on August 3, 2018. The amounts paid by the Company for these services for the years 2017, 2018, 2019, and 2020 were \$1,120, \$26,749, \$6,984, and \$77,177, respectively.

### TERRITORY AND PLAN OF OPERATION

Commencing on April 10, 2018, the Company was licensed in California to write Fire, Marine, Surety, Disability, Plate Glass, Liability, Workers' Compensation, Common Carrier Liability, Boiler and Machinery, Burglary, Credit, Sprinkler, Team and Vehicle, Automobile, Aircraft, and Miscellaneous insurance. The Company had not been writing any business and had been an inactive Company since 2005. During 2019, the Company became active and started assuming business from its parent, Insurance Company of the West.

### REINSURANCE

#### Intercompany Pooling Agreement

Effective January 1, 2019, the Company is a party to the Second Amended and Restated Standard Intercompany Quota Share Reinsurance Pooling Agreement (Second Amended Pooling Agreement) with its parent Insurance Company of the West (West) and its affiliates, Explorer Insurance Company (Explorer), VerTerra Insurance Company (VerTerra), ICW Casualty Insurance Company (Casualty), and ICW Premier Insurance Company (Premier), hereinafter also referred to as the Participants. Under the terms of

the Second Amended Pooling Agreement, the Participants cede and West assumes 100% of the Participants' business generated from underwriting operations. The cessions from the Participants are combined with West's business, resulting in the pooled balance to be allocated to each company in the pool. The Second Amended Pooling Agreement was approved by the California Department of Insurance on September 24, 2018.

The Second Amended Pooling Agreement supersedes the Amended and Restated Pooling Agreement that was effective, January 1, 2015. The following table illustrates each Participant's pooled share as of December 31, 2020.

Company Name	NAIC #	State of Domicile	Pool Participation
Insurance Company of the West	27847	CA	77.8%
Explorer Insurance Company	40029	CA	14.5%
VerTerra Insurance Company	10024	TX	5.6%
ICW National Insurance Company	24635	CA	1.6%
ICW Casualty Insurance Company	16386	NV	0.25%
ICW Premier Insurance Company	16387	NV	0.25%
Pool Total			100.0%

The Second Amended Pooling Agreement provides that receivable and payable balances are to be settled within 30 days of the receipt of the monthly report.

#### Assumed

Assumed business is limited to the Company's participation in the Second Amended Pooling Agreement, as disclosed in the table above.

## Ceded

Ceded business is limited to the Company's participation in the Second Amended Pooling Agreement, as disclosed in the table on the previous page.

## ACCOUNTS AND RECORDS

### Annual Statement Instructions

Pursuant to the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC), Notes to the Financial Statements Number 14, Contingencies, which states in part that "when the disclosure for a particular illustration is not applicable or the reporting entity has nothing to report, the reporting entity is not required to present the disclosure in the illustrated format with zero amounts except for the reconciliation table illustrated in Note 1A, which must be provided regardless of whether the reporting entity has any state prescribed or permitted practices, as it is acceptable to indicate "none" or "not applicable" for the whole disclosure". The Company failed to comply with the instructions. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Pursuant to the Annual Statement Instructions prescribed by the NAIC, Notes to the Financial Statements Number 33, Asbestos/Environmental Reserves, the Company failed to break out and disclose the expense reserves for both asbestos and environmental claims. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Pursuant to the Annual Statement Instructions prescribed by the NAIC, on the Underwriting and Investment Exhibit, Part 3 – Expenses, the Company failed to disclose the method(s) of allocation of the management and service fees incurred attributable to affiliates and non-affiliates. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

## FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2020. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2020

Underwriting and Investment Exhibit for the Year Ended December 31, 2020

Reconciliation of Surplus as Regards Policyholders from December 31, 2016 through December 31, 2020

Statement of Financial Condition  
as of December 31, 2020

	Ledger and Nonledger	Assets Not Admitted	Net Admitted	Notes
<u>Assets</u>	<u>Assets</u>		<u>Assets</u>	
Bonds	\$ 38,368,055	\$ 0	\$ 38,368,055	
Preferred stocks	3,417,902		3,417,902	
Cash and short-term investments	8,845,807		8,845,807	
Investment income due and accrued	395,253		395,253	
Premiums and agents' balances in course of collection	1,891,264		1,891,264	
Premiums, agents' balances and installments booked but deferred and not yet due (including \$ earned but unbilled premiums)	5,224,790		5,224,790	
Net deferred tax asset	1,203,739	307,839	895,900	
Aggregate write-ins for other than invested assets	2		2	
Total assets	<u>\$ 59,346,812</u>	<u>\$ 307,839</u>	<u>\$ 59,038,973</u>	

Liabilities, Surplus and Other Funds

			Notes
Losses		\$ 22,567,036	(1)
Reinsurance payable on paid losses and loss adjustment expenses		796,891	
Loss adjustment expenses		6,697,347	(1)
Commissions payable, contingent commissions and other similar charges		697,141	
Other expenses		19,980	
Taxes, licenses and fees		425	
Current federal and foreign income taxes (including \$ on realized capital gains)		461,634	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$)		8,973,839	
Dividends declared and unpaid: Policyholders		20,628	
Payable to parent, subsidiaries and affiliates		147,720	
Total liabilities		40,382,641	
Common capital stock	\$ 1,000,000		
Gross paid-in and contributed surplus	14,200,000		
Unassigned funds (surplus)	3,456,333		
Surplus as regards policyholders		\$ 18,656,333	
Total liabilities, surplus and other funds		<u>\$ 59,038,973</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2020

Underwriting Income

Premiums earned		\$ 15,327,359
Deductions:		
Losses incurred	\$ 6,826,191	
Loss adjustment expenses incurred	2,320,332	
Other underwriting expenses incurred	<u>5,788,628</u>	
Total underwriting deductions		<u>14,935,151</u>
Net underwriting gain		392,208

Investment Income

Net investment income earned	\$ 1,114,907	
Net realized capital gain	<u>0</u>	
Net investment gain		1,114,907

Other Income (losses)

Finance and service charges not included in premiums	\$ 13,849	
Aggregate write-ins for miscellaneous income	<u>(84,714)</u>	
Total other losses		<u>(70,865)</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		1,436,250
Dividends to policyholders		72,483
Federal and foreign income taxes incurred		<u>461,634</u>
Net income		<u>\$ 902,132</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2019		\$ 17,874,105
Net income	\$ 902,132	
Change in net deferred income tax	187,935	
Change in nonadmitted assets	<u>(307,839)</u>	
Change in surplus as regards policyholders for the year		<u>782,228</u>
Surplus as regards policyholders, December 31, 2020		<u>\$ 18,656,333</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2016 through December 31, 2020

Surplus as regards policyholders, December 31, 2016			\$	2,624,705
	Gain in Surplus	Loss in Surplus		
Net income	\$ 2,135,728	\$		
Change in unrealized capital losses				
Change in net deferred income tax	1,203,739			
Change in nonadmitted assets		307,839		
Aggregate write-ins for gains in surplus	13,000,000			
Total gains and losses	\$ 16,339,467	\$ 307,839		
Net increase in surplus as regards policyholders				16,031,628
Surplus as regards policyholders, December 31, 2020			\$	18,656,333

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2020 were found to be reasonably stated and have been accepted for the purpose of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records – Annual Statement Instructions (Page 9): It is recommended that the Company implement procedures to ensure compliance with the National Association of Insurance Commissioner (NAIC) Annual Statement Instructions, Notes to Financial Statements Numbers 14 and 33, and to the Underwriting and Investment Exhibit, Part 3 – Expenses.

### Previous Report of Examination

Accounts and Records - (Page 6): It was recommended that the Company disclose all material related party transactions in its Notes to the Financial Statements in accordance with Statement of Statutory Accounting Principles No. 25, Paragraph 19. The Company complied.



## ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

Ison, Ferdinand

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Ferdinand  
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Ferdinand Ison  
Examiner-In-Charge  
Senior Insurance Examiner, Specialist  
Department of Insurance  
State of California

Dillon, Sayaka

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Sayaka  
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Sayaka Dillon, CFE, CISA  
Supervising Insurance Examiner  
Department of Insurance  
State of California